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Sequential real rainbow options

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Abstract

We develop two models to value European sequential rainbow options. The first model is a sequential option on the better of two stochastic assets, where these assets follow correlated geometric Brownian motion processes. The second model is a sequential option on the mean-reverting spread between two assets, which is applicable if the assets are co-integrated. We provide numerical solutions in the form of finite difference frameworks and compare these with Monte Carlo simulations. For the sequential option on a mean-reverting spread, we also provide a closed-form solution. Sensitivity analysis provides ... ntial rainbow option v... sets, and that the ... lue with a longe... ess time until ... the long-run mea...

Keywor...
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